The Chartered Institute of Public Finance & Accountancy

Further consultation on timing of prohibiting the use of internal auditors to provide direct assistance

# response to consultation

17 April 2013

the people in public finance

CIPFA, the Chartered Institute of Public Finance and Accountancy, is the professional body for people in public finance. Our 14,000 members work throughout the public services, in national audit agencies, in major accountancy firms, and in other bodies where public money needs to be effectively and efficiently managed.

As the world's only professional accountancy body to specialise in public services, CIPFA's portfolio of qualifications are the foundation for a career in public finance. They include the benchmark professional qualification for public sector accountants as well as a postgraduate diploma for people already working in leadership positions. They are taught by our in-house CIPFA Education and Training Centre as well as other places of learning around the world.

We also champion high performance in public services, translating our experience and insight into clear advice and practical services. They include information and guidance, courses and conferences, property and asset management solutions, consultancy and interim people for a range of public sector clients.

Globally, CIPFA shows the way in public finance by standing up for sound public financial management and good governance. We work with donors, partner governments, accountancy bodies and the public sector around the world to advance public finance and support better public services.

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Dear Keith

**Further consultation on timing of prohibiting the use of internal auditors to provide direct assistance**

CIPFA is pleased to present its comments on this Consultation Paper, which have been reviewed by CIPFA's Accounting and Auditing Standards Panel.

**Background**

This Financial Reporting Council consultation notes that the FRC has decided to take a different approach to direct assistance to that which it proposed in its 2012 consultation on the use of the work internal auditors. The FRC has decided to prohibit the use of direct assistance, while acknowledging that this does not align with the prevailing position of the International Auditing and Assurance Standards Board which was reached after extensive consultation. The FRC also note that the change does not align with the view of almost all respondents to the FRC consultation in 2012.

The current FRC consultation requests information on the impact of the change and the implications for timing.

**General comment on the changed FRC view on direct assistance**

CIPFA supported the proposals set out in the 2012 FRC consultation, including proposals for adoption of material relating to direct assistance. The IESBA has since amended the definition of the engagement team in its Code of Ethics to exclude internal auditors carrying out direct assistance, and the IAASB have re-issued ISA 610.

From a technical audit perspective, CIPFA's view remains that evidence obtained through direct assistance from internal audit staff can be part of the evidence which supports the audit opinion, and that the risks associated with this evidence are not significantly different to those arising from the more general use of the work of internal audit under ISA 610 (UK and Ireland), the use of the work of management's experts under ISA 500 (UK and Ireland) or taking assurance from management controls which the auditor has tested under ISA 330 (UK and Ireland). The risks from direct assistance are mitigated by the narrow scoping of the work to relate to less complex testing, and by the supervision and review processes. Notwithstanding the good working relationship which the audit firm or audit body team may have with the internal audit function, these factors differentiate their work from evidence produced by the engagement team as defined by the IESBA Code.

The current consultation paper also raises issues in connection with possible risk to audit quality. CIPFA would agree that some risk arises from the use of direct assistance, but we consider it to be analogous to other risks which need to be managed during the course of the audit. The supervision and review carried out by the 'external' auditors deal with this directly. We agree that these processes need to be thorough and rigorous, which may increase costs relative to similar supervision and review of external audit staff, but this is just a factor to be considered as part of determining the most cost effective audit approach.

In the current consultation paper the FRC describes its additional consideration of stakeholder perceptions of compromised independence, and the need to be seen to address concerns over threats to independence. We are of course aware of concerns expressed by politicians, regulators, the media and the investment community in relation to independence issues for the external auditors, which link to wider concerns over the exercise of professional scepticism by the auditors of financial institutions and large listed companies. It is of course appropriate for the FRC to respond to stakeholder concerns, especially inasmuch as these concerns are felt by the investor community who ultimately foot the bill for listed company audits.

Irrespective of any view on the appropriateness of the FRC response to concerns in the investor community, it is less clear to us that the same concerns are felt across the wider range of audits in the United Kingdom, whether of smaller companies, charities, or indeed public sector organisations of whatever size. Given this it is less clear that the prohibition on direct assistance should apply to the totality of audits in the UK and Ireland.

**Specific questions**

CIPFA comments on the specific questions in the consultation paper are provided in the attached annex.

I hope this is a helpful contribution to this discussion. If you have any questions about this response, please contact Steven Cain (e:steven.cain@cipfa.org, t: +44(0)20 7543 5794).

Yours sincerely

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**ANNEX**

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| **Q1 To what extent is direct assistance a feature of current audits?** |
| As far as we are aware, direct assistance is relatively rare in public sector audits of financial statements. Even where direct assistance is a practical option, many audit firms or public sector audit bodies may prefer not to use it unless there are cost savings which substantially outweigh the costs of the additional review and risk management procedures which they must carry out in order to use this work. |
| **Q2 Would the prohibition of direct assistance have a significant proportional impact on the costs of those audits where it is currently a feature? If yes, please give an estimate of the proportional cost.** |
| In line with our answer to Q1, we would expect that in those cases where direct assistance is used, this will often have a significant proportional impact on costs. |
| **Q3 Other than cost, are there other significant possible impacts that may result from the prohibition of direct assistance? If yes, please describe them and how difficult, or easy, it would be to overcome them. The FRC is particularly interested to have views on the possible impact, if any, on audit quality.** |
| CIPFA has no specific observations to make on possible impacts other than cost. |
| **Q4 Does the proposed effective date of the revised standards that would bring the prohibition into effect (audits of financial periods ending on or after 15 March 2014 – see paragraph 3.8 above) allow sufficient time to overcome any practical difficulties that may arise from the prohibition, such as a need for external auditors to assign their own staff with appropriate knowledge and competencies to the work? If not, please explain why and identify what would be an appropriate effective date.** |
| This timing may prove problematic for those public sector audits where direct assistance is currently in use, given that the 2013-14 reporting year for most public sector bodies has already started, and some direct assistance may involve testing carried out throughout the reporting period. |